



Public Workshop – R. 17-06-024 Water System Consolidation and SB 623



California Public Utilities Commission State Water Resources Control Board

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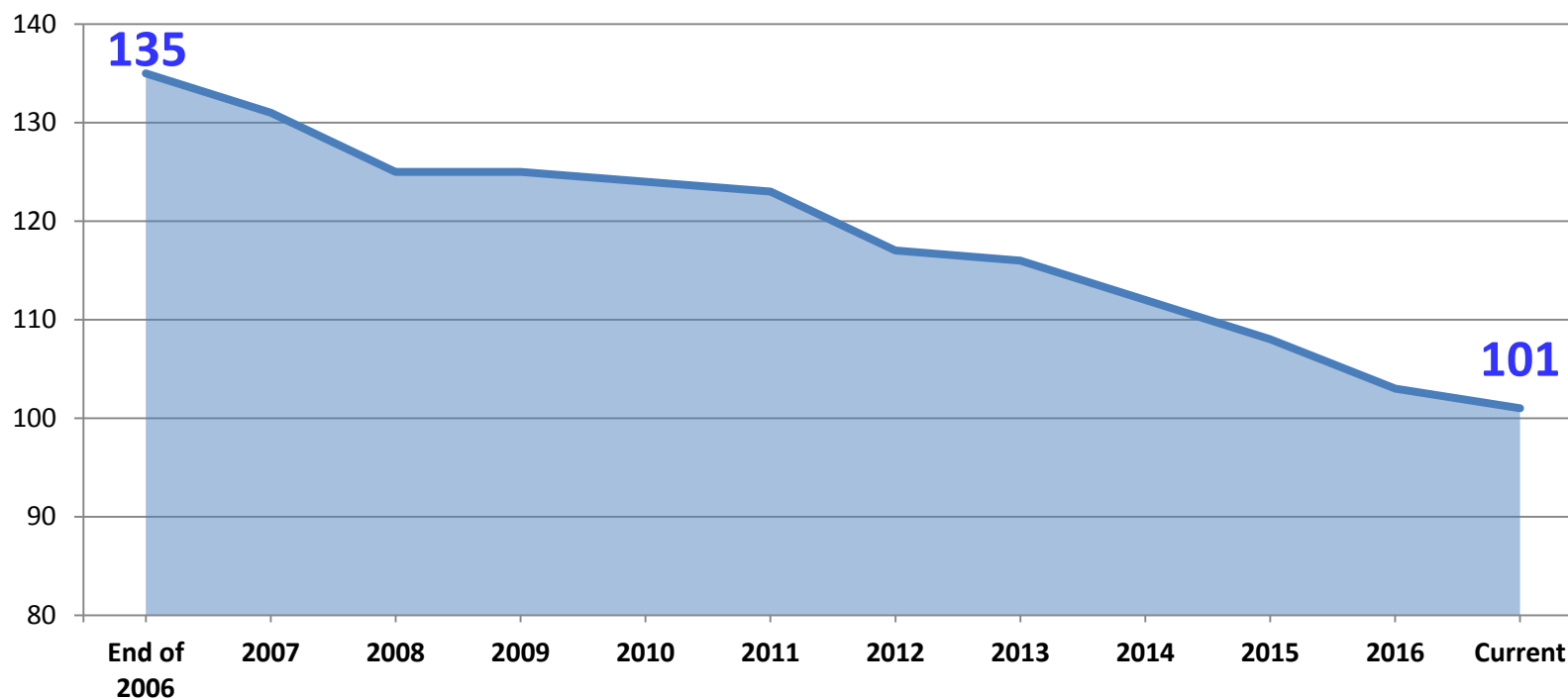
Topics

- Total Water IOUs
- Acquisitions Overview
- Consolidation Policy
- SB 623
- Operations Agreements





Total Investor-Owned Water Utilities



Acquisitions since 2007: **34**

Sewer IOUs

- Current Total: **12**
- Acquisitions since 2007: **2**





Where Did the IOUs Go?

- **17** to other IOUs
 - IOUs also acquired
 - 4 Mutuals
 - 1 New Development
- **10** to Municipals/Public Agencies
- **7** to Mutual Water Companies



In general, IOUs acquire IOUs





Size of Acquired Water Utilities

- **33 Small Class C/D**
 - Class C; less than 2,000 connections
 - Class D; less than 500 connection
- **1 Large Class A**
 - Valencia Water Company
 - 30,000 Connections

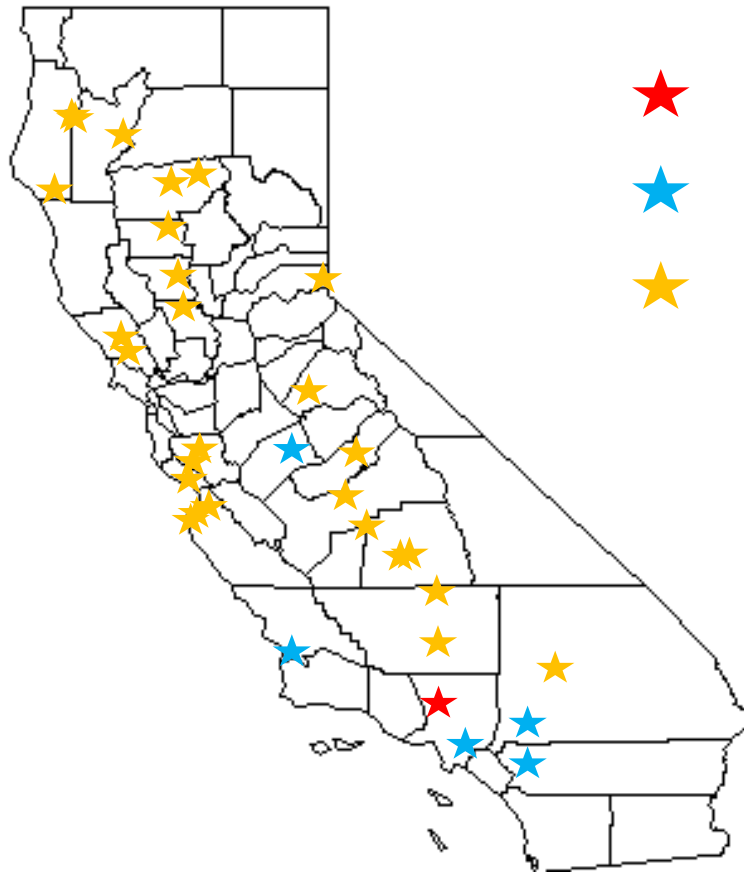


Small systems are ripe for acquisition





Location of Acquired Water Utilities



★ Class A

★ Class C

★ Class D

*No Class B acquired...but two pending.





Public Water System Investment and Consolidation Act of 1997

- **Public Utilities Code Sections 2718 – 2720**
 - Needs of Water Utilities
 - Infrastructure
 - Capital
 - Scale
 - Incentives
- Use Fair Market Value
 - As opposed to “book value”
- Can Exceed Reproduction Cost
 - Reliability
 - Health and Safety Regulations
 - Economies of Scale
 - Effect on customers “fair and reasonable”





Public Water System Investment and Consolidation Act of 1997

- CPUC Actions
 - Rulemaking 97-10-048
 - “Guidelines for the Acquisition and Mergers of Water Companies”
 - Filed October 22, 1997
- Decision 99-10-064
 - Issued October 21, 1999
 - Adopted a settlement between the ratepayer advocate and many of the water utilities
 - Six pages in length
 - Timelines, incentives, notices



In 1997, the CPUC regulated about 200 water utilities





CPUC Balanced Rates Proceeding

- Water Action Plan
 - Objective: Set rates that balance investment, conservation, and affordability.
 - Issued Decision No. 14-10-047 (October 2014)
 - Requires utilities to:
 - Assess whether high-cost and affordability problems exist in any of its districts.
 - Report on the review in next General Rate Case.
 - Propose (among other things):
 - Consolidation in some form





Pending IOU Acquisitions

- **Fruitridge Vista Water Company**
 - Class B
 - 4,800 connections
 - Service Area: Sacramento
 - California-American Water Company

- **Mesa-Crest Water Company**
 - Class C
 - 700 connections
 - Service Area: La Cañada Flintridge
 - Liberty Utilities





Pending IOU Acquisitions

- **Hillview Water Company**
 - Class B
 - 1,500 connections, \$95 average monthly bill
 - Service Area: Oakhurst, Madera County
 - Comprised of four separate water systems
 - Recipient of significant Prop 50 and Prop 84 grants
 - To address; arsenic, uranium, manganese, and iron
 - California-American Water Company
 - Attractive Acquisition Target
 - Grant funds for capital investments
 - But on-going operational expenses remain





SB 623 - Water quality: Safe and Affordable Drinking Water Fund

- Legislative Findings and Declarations;
 - ...hundreds of thousands of Californians...may be exposed to unsafe drinking water in their homes and schools...
 - the operation and maintenance costs to supply, treat, and distribute potable water...may be significant.
 - ...nearly all state or federal drinking water project funding sources prohibit the use of that funding for operation and maintenance costs...
 - All public water systems...charge a schedule of rates and fees that are sufficient to recover the operation and maintenance costs.
 - Intent...to provide financial support, particularly for operation and maintenance...while also ensuring the long term sustainability of drinking water service and infrastructure.





SB 623 - Water quality: Safe and Affordable Drinking Water Fund

- Drinking water fee
 - \$0.95 to \$10 per month
 - Based on meter size
 - Exempts CARE customers; below 200% of federal poverty level
 - Recycled water service / fire service is exempt
 - Dedicated Safe and Affordable Drinking Water Fund
 - \$100 M plus for 15 years
- Separate from dairy and fertilizer fees
- High-risk aquifer maps



While the text of the bill may change, the legislative findings and declarations will likely remain.





Operations Agreements

- Municipal Water Systems continue to seek operators for their water systems.
 - Not a core function
 - Aging infrastructure
 - Under-investment
 - Increasing water system expertise required
- Class A IOUs
 - Unregulated affiliates
 - Growth market



Reluctance to sell (consolidate) the water system remains.





Summary

- Number of Water IOUs have decreased.
- Majority of acquisitions are by other Water IOUs.
- CPUC continues to encourage acquisitions and consolidation.
- Operations and maintenance are critical.

